

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Homer	County Calhoun
Audit Date 12/31/05	Opinion Date 12/22/06	Date Accountant Report Submitted to State: 3/19/07	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

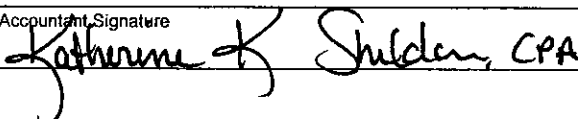
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Walker, Fluke & Sheldon, PLC			
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Accountant Signature 		Date 3/19/07	



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December 22, 2006

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To the Village Council
Village of Homer
Calhoun County, MI

We have recently completed an audit of the financial statements of the Village of Homer, Calhoun County, Michigan for the year ended December 31, 2005. During the course of the audit the following items came to our attention, which require further comment.

Budgets Should Be Reviewed On A Periodic Basis

The general appropriations act passed before the beginning of each fiscal year is the legal authority for the Village to spend public moneys. The general appropriations act specifies amounts that may be spent by budget category. The Village does not have legal authority to spend amounts in excess of specific appropriations.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit of government may not incur expenditures in excess of amounts appropriated. When it appears that more money will be spent than the amount originally appropriated, it is necessary to amend the budget. This can be done at any meeting prior to the fiscal year end and does not require a new public hearing. During the year ended December 31, 2005, the Village's actual expenditures exceeded their appropriations in several categories.

It is recommended that the Village closely monitor the expenditures in relation to amounts appropriated and amend the budget when necessary. In addition, consideration should be taken at year-end for typical audit adjustments and amend the budget accordingly. The approved budget and all amended budgets should become a permanent part of the board minutes.

A Separate Street Bank Account Is Required

During the course of the audit, it was noted that Village does not have a separate streets bank account.

The Department of Treasury requires that local units of government that receive ACT 51 monies maintain a separate streets bank account. This account will control the expenditures of monies that are earmarked by law and the State Constitution for street and highway purposes. The local and major street funds may be pooled as one shared account.

It is recommended that the Village Council approve the opening of a street bank account and the restricted fund balance be transferred to this account. All future deposits and expenditures should be deposited and paid from this account.

General Ledger Cash Should Be Reconciled to the Treasurer's Records Monthly

During the course of the audit, it was noted that the cash accounts in the general ledger had not been reconciled to the Treasurer's reconciled statements on a monthly basis. Additional bookkeeping work is outside the normal procedures required by an audit and results in additional costs to the Village.

One of the most important internal control procedures is for the Clerk and Treasurer to reconcile their books to the reconciled bank statements for all bank accounts maintained by the Treasurer. This step verifies that all the activity of the Village has been recorded in the Village general ledger.

We recommended that the bank reconciliations be compared to the general ledger on a monthly basis. Differences should be investigated in a timely manner. Adjustments should be made to the general ledger as necessary.

Documentation Maintained in Village Board Meeting Minutes

During the course of the audit, it was noted that important items were not documented in the minutes:

1. Instances were noted where purchase of capital outlay items are not being approved, or if approved, not documented in the written minutes.
2. The motion to approve the payment of bills in the minutes should indicate the total dollar amount to be paid. Since the Village does not list all the bills to be paid within the minutes, but as a separate attachment, for internal control issues the minutes should indicate the dollar amount to verify that the correct list is being attached.

The Uniform Accounting Procedures Manual Internal Control Requirements states that all disbursements be approved by the legislative body prior to disbursement. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges or to pay appropriated amounts and payroll, but then these payments must be reviewed in the subsequent month, and the specific amounts approved. Items not specifically approved or approved for amounts less than that expended are considered illegal expenditures of the Village. How this review of bills is documented in the minutes is critical for support purposes. Several different approaches can be taken.

It is recommended that a paid bills list, in check number order, be circulated to each member, and that one copy be signed by all members and permanently attached to the minutes. Maintaining check number order from month to month is crucial. The first check number should be the next sequential check number after the last one on the previous month's list. Both lists could be circulated to ensure this accountability. Void checks and missing checks should be on the list and the original void checks available for inspection. If an advance approval policy is adopted, then those disbursements that were approved in the prior month, but not yet disbursed need to be identified on the paid bills list. These procedures provide the best evidence and documentation that everyone has reviewed and approved the disbursements and explained any missing/void checks.

General Ledger Disbursement Posting

During the course of the audit, internal control weaknesses in the expenditure area were noted. Several disbursements were inconsistently posted to the general ledger and coded to incorrect general ledger accounts. This causes inaccurate interim financial statements, which may cause budgeting problems throughout the year.

We recommend that the clerk be given the opportunity to consult with outside professionals on a monthly basis for help with posting of items in question, if needed. This can save the Village in costly bookkeeping fees incurred during the audit.

Disbursements

During the course of the audit, an internal control weakness in the expenditures and credit card expenditure area were noted. Several disbursements were not substantiated by a valid receipt.

Disbursements made by the Village should be supported by proper documentation. Invoices or contracts should support expenditures for goods or services. A signed reimbursement form that specifies the payee, what the expense was incurred for, where the expense occurred, when the expense was incurred and why the expense was incurred should substantiate reimbursements to employees or officials. Applicable invoices or receipts should be attached.

We recommend that the Village obtain proper documentation for all disbursements made. The documentation should be filed in an organized manner that is easily assessable. In addition, the Village Board should examine all credit card invoices prior to approval for payment.

We would like to take this opportunity to thank the Village for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

VILLAGE OF HOMER
Financial Statements
For the year ended December 31, 2005

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Homer
Calhoun County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Homer, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Village's financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Homer, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Homer, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 22, 2006, on our consideration of the Village of Homer, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management discussion and analysis and required supplementary information list in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Homer's basic financial statements. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Village of Homer, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hastings, Michigan
December 22, 2006

Walker, Fluke & Sheldon, PLC

Village of Homer Management Discussion and Analysis

As the Village Council of the Village of Homer, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of Village of Homer for the fiscal year ended December 31, 2005 and 2004. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Village. We encourage readers to consider this information in conjunction with the letter or transmittal, which begins on page 1, and the financial statements, which begin on page 9.

Financial Highlights

- The Village's net asset decreased slightly as a result of this year operations. The net assets of Village of Homer exceeded its liabilities at the close of the most recent fiscal year by \$6,547,379 (net assets) compared to \$6,594,489 last year. Of this amount, \$1,364,398 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The net assets of the governmental activities are \$3,665,369 compared to \$3,710,542 last year. The net assets of the business type activities are \$2,882,010 compared to \$2,883,947 last year.
- The governmental activities total net assets decreased by \$45,173 compared to an increase of \$53,397 last year. The business type activities total net assets decreased by \$1,937 compared to an increase of \$30,002 last year.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,345,441; an increase of \$112,554 compared to an ending fund balance of \$1,232,887 an increase of \$69,370 from the prior year.
- Due to economic condition factors within the State of Michigan the Village of Homer experienced a slight increase in State Shared Revenues during the 2005 Fiscal year. The Village received \$217,947 in State Shared Revenue and \$138,661 in Act 51 money during the year ending December 31, 2005.
- The Water Fund and Sewer Fund charges generated \$162,886 and \$263,427 respectively. These rates are consistent with the graduated rate structures that were adopted October 6, 2000 and June 6, 1999.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$36,628 or 6.98% of total general fund expenditures. Last year the unreserved fund balance for the general fund was \$79,236 or 16.07% of total general fund expenditures.
- In this time of slow economic growth and diminishing state shared revenues the Village Council can be pleased that they were able to maintain existing millage rates while at the same time provide Village residents with important services and new initiatives.

Overview of the Financial Statements

The Village of Homer's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. One of the most important questions asked about the Village's finances is, "Is the Village as a whole better off or worse off as a result of the years activities?" The government-wide financial statements, which include the Statement of Net Assets and Statement of Activities, are designed to provide readers with a broad overview of the Village's finances as a whole to help answer this question. These statements use the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual accounting records revenues and expenses when earned, regardless of when received.

The statement of net assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Net assets may serve as one way to measure financial health or position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Village's financial position is improving or deteriorating. Non-financial factors such as changes in the Village's property tax base and the condition of roads, also, need to be considered in the overall health of the Village.

The statement of activities presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., state shared revenue).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or

a significant portion of their costs through user fees and charges (business-type activities). The government-wide statements are divided into three types of activities.

- The governmental activities of the Village include general government, public safety, public works, recreation and cultural and health and welfare. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- The business activities of the Village include the water, sewer and motor pool funds. User fees are charged to finance most of these activities.
- The third type of activity is for component units. Currently, the Village has not component units.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Homer, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village of Homer maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets, Local Streets, Library Fund and Fire Fund, which are considered to be major funds. All other governmental funds are considered non-major funds.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

Proprietary funds. The Village maintains two types of proprietary funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for the Water Fund and Sewer Fund. Internal service funds report activities that provide supplies or service to the Village's other operations. The Village uses an internal service fund to account for motor pool operations. This fund is reported in the governmental activities on the government-wide statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, both of which are considered to be major funds of the Village. The proprietary fund financial statements can be found on pages 15-17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Village's own programs. The Village does not have any fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 18-31 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The Village adopts an annual budget for its major funds. Within the required supplementary information, a budget comparison statement has been provided for these funds to demonstrate compliance with the budget.

Required supplementary information can be found on pages 32-39 of this report.

Individual fund statements and schedules are presented immediately following the required supplementary information on budgets on pages 40-47.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Homer, assets exceeded liabilities by \$6,547,379 at the close of the most recent fiscal year.

\$1,364,398 of the Village's net assets (20.84 percent) reflects its unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors. An additional portion of the Village's net assets (4.85 percent) reflects restricted net assets \$317,369, which are resources that are subject to external restrictions on how they may be used. The remaining portion of the Village's net assets (74.31 percent) reflects its investment in capital assets \$4,865,612 (e.g. land, buildings, equipment and furniture and fixtures). The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Village of Homer's Condensed Financial Data

	Governmental		Business-Type	
	2005	2004	2005	2004
Current and Other Assets	\$ 1,367,967	\$ 1,230,122	\$ 388,940	\$ 592,616
Capital Assets	2,458,752	2,626,090	3,182,538	3,062,067
Total Assets	<u>3,826,719</u>	<u>3,856,212</u>	<u>3,571,478</u>	<u>3,654,683</u>
Short-Term Liabilities	84,451	73,670	86,468	47,178
Long-Term Liabilities	76,899	72,000	603,000	723,558
Total Liabilities	<u>161,350</u>	<u>145,670</u>	<u>689,468</u>	<u>770,736</u>
Net Assets				
Invested in Capital Assets,				
Net of Related Debt	2,366,074	2,546,090	2,499,538	2,298,509
Restricted	79,159	108,467	238,210	333,312
Designated	-	-	-	-
Unrestricted	<u>1,220,136</u>	<u>1,055,985</u>	<u>144,262</u>	<u>252,126</u>
Total Net Assets	<u>\$ 3,665,369</u>	<u>\$ 3,710,542</u>	<u>\$ 2,882,010</u>	<u>\$ 2,883,947</u>

	Governmental		Business-Type	
	2005	2004	2005	2004
Program Revenues				
Charges for Services	\$ 53,750	\$ 255,399	\$ 439,383	\$ 447,562
General Revenues				
Property Taxes	430,621	385,715	-	-
Licenses and Permits	5,767	-	-	-
Federal Grants	-	-	-	-
State Grants	358,436	426,975	-	-
Contributions from Local Units	219,524	14,330	-	-
Fines and Forfeitures	17,827	-	-	-
Investment Income	29,217	5,136	-	-
Other	11,881	-	-	-
Business-Type Revenues				
Investment Income	-	-	9,825	-
Other	-	-	-	3,069
Total Revenues	<u>1,127,023</u>	<u>1,087,555</u>	<u>449,208</u>	<u>450,631</u>
Program Expenses				
Governmental Activities				
Legislative	11,434	10,271	-	-
General Government	163,994	166,904	-	-
Public Safety	556,435	472,866	-	-
Public Works	232,763	170,640	-	-
Recreational and Cultural	202,253	209,077	-	-
Interest and Fiscal charges	5,317	4,400	-	-
Business-Type Activities				
Water	-	-	165,753	152,259
Sewer	-	-	254,050	223,547
Interest and fiscal charges	-	-	31,342	44,823
Total Expenses	<u>1,172,196</u>	<u>1,034,158</u>	<u>451,145</u>	<u>420,629</u>
Change in Net Assets	<u>\$ (45,173)</u>	<u>\$ 53,397</u>	<u>\$ (1,937)</u>	<u>\$ 30,002</u>

The total cost of all programs and services was \$1,623,341 representing a continuation of existing programs and services. The General, Major Street, Park Maintenance, Park System and Sewer Funds experienced a reduction in their fund balances, while the Local Street, Fire, Library, Lake Improvement, Skating, Fire Truck, Building Authority and Water Funds experienced an increase in fund balance.

Governmental activities. Governmental activities decreased the Village's net assets by \$45,173. During the year, the Village undertook several actions in an effort to enhance revenues and stabilize expenditures.

- The Village reclassified the General Office Assistant position from a full-time position to a part-time position. The savings allowed the Police Department to be increased from two (2) Full-Time Officers to three (3) Full-Time Officers.
- The administration continued to look at the wage/benefit distributions and made adjustments where merited. Generally this reduced the percentage of wage/benefits allocated to the General Fund. The Police Department continued to raise additional revenue through the State Salvage Program. The additional revenues obtained were used to offset costs within the Police Department as allowed by law.
- Despite these efforts the General Fund balance was required to offset the Governmental Activities expenditures. It is worth noting that the State Shared Revenues have represented approximately 38% of all of the annual General Fund Revenues. During this period of time the Village experienced a high of \$259,525 in 2002 and received a low of \$217,947 for 2005.

The cost of all governmental activities this year was \$1,172,196. However as shown in the Statement of Activities the amount that the taxpayers ultimately financed for these activities through Village taxes was \$430,621 because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and/or contributions. Overall, the Village's governmental program revenues, including intergovernmental revenues and fees for services, totaled \$637,477. The Village paid for the remaining "public benefit" portion of governmental activities totaling \$489,546 with property taxes and other revenues, such as interest.

Business-Type activities. Business-type activities decreased the Village's net assets by \$1,937. The Village's water and sewer system commodity charges were increased in 2005 consistent with the graduated rate structures that were adopted October 6, 2000 and June 6, 1999. Overall utilization of the utility systems remained relatively stable.

Financial Analysis of the Village's Funds

As noted earlier, the Village used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Village's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,345,441, an increase of \$112,554. Last year, the Village's governmental funds combined ending fund balance was \$1,232,887, which was an increase of \$69,370.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$36,628 and the total fund balance was \$101,949. Unreserved fund balance represents 6.98% of the total general fund expenditures.

In addition to maintaining basic and essential services, the general fund continued to fund the Village's sidewalk replacement program, which totaled \$13,335 during 2005. The general fund also provided transfers to the fire and library funds.

The Major Street Fund and the Local Street Fund continued to provide adequate funding for the maintenance and upgrading of the street system within the Village. During 2005 a total of \$30,000 (Major Street) and \$40,000 (Local Street) was budgeted for the seal coating, milling and resurfacing program.

Proprietary funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the Village's water fund reported unrestricted net assets of \$81,492. The Water Fund had an increase in net assets of \$2,285. The Village's Sewer Fund reported unrestricted net assets of \$62,770 at the end of the year. The Sewer Fund had a decrease in net assets of \$4,222.

General Fund Budgetary Highlights

The amended revenue budget increased from the original budget by \$39,178 mainly due to an amendment for an increase in charges for services and other minor changes. The expenditures increased \$24,612 between the original budget and the final budget.

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Budget Increase (Decrease)</u>
Legislative	\$ 12,745	\$ 10,687	\$ (2,058)
General Government	140,735	145,209	4,474
Public Safety	236,470	268,364	31,894
Public Works	49,115	44,787	(4,328)
Recreation and Cultural	23,880	18,510	(5,370)

The majority of budget amendments were to police and garage and maintenance for increase in police coverage and capital outlay purchases.

During the year revenues were less than budgetary estimates, and expenditures were more than budgetary estimates.

Capital Assets

The Village's investment in capital assets for its governmental activities as of December 31, 2005, amounts to \$2,458,752 (net of accumulated depreciation) and \$3,182,538 (net of accumulated depreciation) for business activities. This investment in capital assets includes: land, buildings, improvements, equipment and furniture and fixtures, vehicles, park facilities, roads, bridges, and water and sewer systems.

Major capital asset events during the current fiscal year included:

Sewer Lagoon Restoration	\$247,300
Concrete Sidewalks	\$ 13,335
Police Equipment	\$ 4,291
Police Vehicles	\$ 28,457
Fire Equipment	\$ 3,196
Library Equipment	\$ 1,914
Motor Pool Equipment	\$ 19,987

Additional information on the Village's capital assets can be found on pages 25-26 of the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the Village had total bonded debt outstanding of \$755,000, lease obligations of \$20,678 and general obligation debt of \$46,767. The Village's debt represents bonds secured by specified revenue sources, lease obligations and compensated absences, respectively. The Village has an additional debt capacity of approximately \$1.2 million. The debt capacity is based upon the use of limited or full faith general obligation bonds. Additional funding mechanisms may be available depending on the nature of the project and the revenues pledged to meet amortization requirements.

The Village's Outstanding Debt General Obligation and Revenue Bonds

	<u>Governmental-Type</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Primary Government:						
Building Authority						
Bonds	\$ 72,000	\$ 80,000	\$ -	\$ -	\$ 72,000	\$ 80,000
Lease Payable	20,678	-	-	-	20,678	-
Revenue Bonds	-	-	683,000	763,000	683,000	763,000
Compensated Absences	46,767	32,394	-	-	46,767	32,394
Total	<u>\$ 139,445</u>	<u>\$ 112,394</u>	<u>\$ 683,000</u>	<u>\$ 763,000</u>	<u>\$ 822,445</u>	<u>\$ 875,394</u>

The Village's debt decreased by \$66,069 (7.44%) during the current fiscal year. The net reduction was mainly attributable to making debt service payments as they came due. Additional information on the Village's long-term debt can be found on pages 27-28 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Budget assumptions: The Village considered many factors prior to adoption of the 2006 Annual Budget. All major and traditional funds except for the General Fund and Park Fund were balanced with undesignated reserves being maintained at the recommended minimum of 12% to 15% levels. The General Fund Budget of \$618,210 is based upon the same millage rate as last year of 11.6983 mills per 1,000 state taxable value. Additional millage levies that have been in place for a number of years are 4.6793 for major and local street maintenance and construction and

.725 for the Building Authority's debt service. The Water Fund Budget of \$219,925 and the Sewer Fund Budget of \$261,705 are balanced based upon the graduated rate structures that were adopted October 6, 2000 and June 6, 1999.

Significant Budget Considerations: In recognition of the State of Michigan's early financial indicators we have estimated a total of \$221,000 in State Shared Revenues to be received during the 2006 Annual Budget. Along with the possible 2006 economic condition factors of the State and the Village of Homer it is worth recognizing that the economy is experiencing a slight rebound due to a reduction in gas prices, a smooth transition at the helm of the Federal Reserve and rising stocks. However within Michigan concern has to remain regarding the declining market share of auto sales. Also the State Legislature and the Governor are continuing to discuss "tax reform". One of the proposals that had reached preliminary consensus involved a 15% tax credit for personal property tax, which would eventually increase to a 50% tax credit. The impact upon local government if the personal property tax credit is approved is uncertain. The Village of Homer Personal Property Tax Taxable Value, including Industrial Facilities Tax, totals \$5,940,810 and represents approximately 24% of the total tax base.

The 2006 Annual Budget assumes a moderate increase in the property tax growth. Specifically we have projected a revenue increase of \$16,205, representing a CPI increase of 1.029. The projection is reasonable recognizing that the final taxable assessed value will not be determined until after the March Board of Review.

Again this year in an effort to stabilize the General Fund we have distributed throughout the Major Funds the benefit costs of those employees whose time are charged to the respective funds. Also we have included a new operating transfer within the Sewer Fund, (a Business-Activity) to the General Fund commonly referred to as a fee in lieu of tax.

The process of developing a six (6) year Capital Improvement Program has continued for the second year in a row. The Capital Improvement sheets included within the budget document identify projects contemplated during the 2006 Annual Budget as well as several traditional capital improvements projected out during future budget years.

Requests for Information

This financial report is designed to provide a general overview of Village of Homer's finances for all those with an interest in the village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the (Supervisor/Treasurer/Clerk), Village of Homer, 203 N Main Street, Homer, MI 49073. 517-568-4321

VILLAGE OF HOMER
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2005

ASSETS	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$ 1,086,201	\$ 55,640	\$ 1,141,841
Investments	11,350	-	11,350
Receivables (Net)			
Taxes	33,349	-	33,349
Other	8,969	-	8,969
Accounts	-	79,338	79,338
Due From State	97,119	-	97,119
Due from Other Units of Government	51,820	-	51,820
Restricted Assets	79,159	238,210	317,369
Bond Issue Costs	-	15,752	15,752
Capital Assets (Net of Accumulated Depreciation)	<u>2,458,752</u>	<u>3,182,538</u>	<u>5,641,290</u>
Total Assets	<u>3,826,719</u>	<u>3,571,478</u>	<u>7,398,197</u>
LIABILITIES			
Accounts Payable	11,335	-	11,335
Accrued Liabilities	10,570	6,468	17,038
Noncurrent Liabilities			
Due Within One Year	62,546	80,000	142,546
Due In More Than One Year	<u>76,899</u>	<u>603,000</u>	<u>679,899</u>
Total Liabilities	<u>161,350</u>	<u>689,468</u>	<u>850,818</u>
NET ASSETS			
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,366,074	2,499,538	4,865,612
Restricted	79,159	238,210	317,369
Unrestricted	<u>1,220,136</u>	<u>144,262</u>	<u>1,364,398</u>
Total Net Assets	<u>\$ 3,665,369</u>	<u>\$ 2,882,010</u>	<u>\$ 6,547,379</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Governmental Activities	Business-Type Activities	
Primary Government					
Governmental Activities					
Legislative	\$ 11,434	\$ -	\$ (11,434)	\$ -	\$ (11,434)
General Government	163,994	53,750	(110,244)	-	(110,244)
Public Safety	556,435	-	(556,435)	-	(556,435)
Public Works	232,763	-	(232,763)	-	(232,763)
Recreational and Cultural	202,253	-	(202,253)	-	(202,253)
Interest and Fiscal Charges	5,317	-	(5,317)	-	(5,317)
Total Governmental Activities	<u>1,172,196</u>	<u>53,750</u>	<u>(1,118,446)</u>	<u>-</u>	<u>(1,118,446)</u>
Business-type Activities					
Water	165,753	171,894	-	6,141	6,141
Sewer	254,050	267,489	-	13,439	13,439
Interest and Fiscal Charges	31,342	-	-	(31,342)	(31,342)
Total Business-type Activities	<u>451,145</u>	<u>439,383</u>	<u>-</u>	<u>(11,762)</u>	<u>(11,762)</u>
Total Primary Government	<u>\$ 1,623,341</u>	<u>\$ 493,133</u>	<u>(1,118,446)</u>	<u>(11,762)</u>	<u>(1,130,208)</u>
General Revenues					
Taxes and Penalties			430,621	-	430,621
Licenses and Permits			5,767	-	5,767
State Grants			358,436	-	358,436
Contributions from Local Units			219,524	-	219,524
Fines and Forfeitures			17,827	-	17,827
Investment Income			29,217	9,825	39,042
Other			11,881	-	11,881
Total General Revenue			<u>1,073,273</u>	<u>9,825</u>	<u>1,083,098</u>
Change in Net Assets			(45,173)	(1,937)	(47,110)
Net Assets-Beginning			<u>3,710,542</u>	<u>2,883,947</u>	<u>6,594,489</u>
Net Assets-Ending			<u>\$ 3,665,369</u>	<u>\$ 2,882,010</u>	<u>\$ 6,547,379</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2005

ASSETS	General	Major Streets	Local Streets	Library	Fire	Non-Major Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 29,291	\$ 66,604	\$ 580,314	\$ 55,611	\$ 48,818	\$ 269,334	\$ 1,049,972
Investments	-	-	-	-	-	11,350	11,350
Receivables							
Taxes	22,948	-	9,006	-	-	1,395	33,349
Other	-	-	-	-	-	8,969	8,969
Due From State	77,614	13,989	5,516	-	-	-	97,119
Due From Other Units of Government	-	-	-	51,820	-	-	51,820
Due From Other Funds	-	-	67,587	-	-	4,500	72,087
Restricted Assets	-	-	-	-	-	79,159	79,159
Total Assets	\$ 129,853	\$ 80,593	\$ 662,423	\$ 107,431	\$ 48,818	\$ 374,707	\$ 1,403,825
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts Payable	\$ -	\$ 4,835	\$ -	\$ -	\$ -	\$ 6,500	\$ 11,335
Accrued Liabilities	4,956	397	378	1,546	1,923	-	9,200
Due To Other Funds	-	-	-	-	4,500	-	4,500
Deferred Revenue	22,948	-	9,006	-	-	1,395	33,349
Total Liabilities	27,904	5,232	9,384	1,546	6,423	7,895	58,384
Fund Balances							
Reserved	-	-	-	-	-	79,159	79,159
Designated	65,321	-	-	-	-	-	65,321
Unreserved-Undesignated	36,628	75,361	653,039	105,885	42,395	287,653	1,200,961
Total Fund Balances	101,949	75,361	653,039	105,885	42,395	366,812	1,345,441
Total Liabilities and Fund Balances	\$ 129,853	\$ 80,593	\$ 662,423	\$ 107,431	\$ 48,818	\$ 374,707	\$ 1,403,825

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2005

Governmental Fund Balance - March 31, 2006		\$ 1,345,441
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	\$ 5,024,153	
Less: Accumulated depreciation	<u>(2,653,513)</u>	2,370,640
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-Wide Statement of Net Assets		
		55,384
Deferred revenues reported in governmental funds are recognized as revenues in the governmental activities		
		33,349
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Building Authority Bonds Payable	(72,000)	
Lease Payable-2005 Chevy Tahoe	(20,678)	
Accumulated Vacation and Sick Leave	<u>(46,767)</u>	<u>(139,445)</u>
Net Assets of Governmental Activities		<u>\$ 3,665,369</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2005

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Library</u>	<u>Fire</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues							
Taxes and Penalties	\$273,111	\$ -	\$107,545	\$ -	\$ -	\$ 16,616	\$ 397,272
Licenses and Permits	5,767	-	-	-	-	-	5,767
State Grants	217,947	99,450	39,211	1,828	-	-	358,436
Contributions from Local Units	-	-	-	92,559	99,416	27,549	219,524
Charges for Services	53,750	-	-	-	-	-	53,750
Fines and Forfeitures	3,938	-	-	13,889	-	-	17,827
Interest and Rentals	15,235	498	3,312	4,026	282	5,864	29,217
Other Revenue	1,849	6,877	237	1,529	519	870	11,881
Total Revenues	<u>571,597</u>	<u>106,825</u>	<u>150,305</u>	<u>113,831</u>	<u>100,217</u>	<u>50,899</u>	<u>1,093,674</u>
Expenditures							
Legislative	11,434	-	-	-	-	-	11,434
General Government	136,967	-	-	-	-	-	136,967
Public Safety	274,711	-	-	-	142,444	-	417,155
Public Works	41,836	100,027	81,601	-	-	-	223,464
Recreation and Cultural	18,420	-	-	135,341	-	7,841	161,602
Capital Outlay	32,748	-	-	1,914	3,196	-	37,858
Debt Service	8,846	-	-	-	-	12,250	21,096
Total Expenditures	<u>524,962</u>	<u>100,027</u>	<u>81,601</u>	<u>137,255</u>	<u>145,640</u>	<u>20,091</u>	<u>1,009,576</u>
Excess of Revenues Over (Under) Expenditures	<u>46,635</u>	<u>6,798</u>	<u>68,704</u>	<u>(23,424)</u>	<u>(45,423)</u>	<u>30,808</u>	<u>84,098</u>
Other Financing Sources (Uses)							
Lease Proceeds	28,456	-	-	-	-	-	28,456
Operating Transfers In	8,000	-	24,908	32,000	53,485	14,844	133,237
Operating Transfers (Out)	(100,261)	(24,908)	-	-	-	(8,068)	(133,237)
Total Other Financing Sources (Uses)	<u>(63,805)</u>	<u>(24,908)</u>	<u>24,908</u>	<u>32,000</u>	<u>53,485</u>	<u>6,776</u>	<u>28,456</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(17,170)</u>	<u>(18,110)</u>	<u>93,612</u>	<u>8,576</u>	<u>8,062</u>	<u>37,584</u>	<u>112,554</u>
Fund Balance - January 1, 2005	<u>119,119</u>	<u>93,471</u>	<u>559,427</u>	<u>97,309</u>	<u>34,333</u>	<u>329,228</u>	<u>1,232,887</u>
Fund Balance - December 31, 2005	<u>\$101,949</u>	<u>\$ 75,361</u>	<u>\$653,039</u>	<u>\$105,885</u>	<u>\$ 42,395</u>	<u>\$366,812</u>	<u>\$1,345,441</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds		\$ 112,554
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		33,349
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		(19,307)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces debt)		15,779
Lease proceeds are revenue in the governmental funds, but not in the statement of activities (where it increases debt)		(28,456)
Allocation of internal service funds		(9,299)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:		
Expenditures for capital assets	\$ 37,858	
Less: Current year depreciation	<u>187,651</u>	<u>(149,793)</u>
Change in Net Assets of Governmental Funds		\$ <u>(45,173)</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
PROPRIETARY FUNDS STATEMENT OF NET ASSETS
December 31, 2005

	<u>Enterprise Funds</u>		<u>Total</u>	<u>Internal</u>
	<u>Sewer</u>	<u>Water</u>	<u>Enterprise</u>	<u>Service Fund</u>
<u>ASSETS</u>	<u>System</u>	<u>System</u>	<u>Funds</u>	<u>Motor</u>
				<u>Pool</u>
Cash and Cash Equivalents	\$ 18,789	\$ 36,851	\$ 55,640	\$ 36,229
Receivables (Net)				
Accounts	46,719	32,619	79,338	-
Bond Issue Costs	-	15,752	15,752	-
Restricted Assets	148,213	89,997	238,210	-
Capital Assets (Net of Accumulated Depreciation)	<u>2,043,217</u>	<u>1,139,321</u>	<u>3,182,538</u>	<u>88,112</u>
Total Assets	<u>\$ 2,256,938</u>	<u>\$ 1,314,540</u>	<u>\$ 3,571,478</u>	<u>\$ 124,341</u>
<u>LIABILITIES AND NET ASSETS</u>				
Liabilities				
Accrued Liabilities	\$ 2,738	\$ 3,730	\$ 6,468	\$ 1,370
Due to Other Funds	-	-	-	67,587
Bonds Payable	<u>448,000</u>	<u>235,000</u>	<u>683,000</u>	<u>-</u>
Total Liabilities	<u>450,738</u>	<u>238,730</u>	<u>689,468</u>	<u>68,957</u>
Net Assets				
Net Assets				
Investment in Capital Assets, Net of Related Debt	1,595,217	904,321	2,499,538	88,112
Restricted for Debt Service	148,213	89,997	238,210	-
Unrestricted	<u>62,770</u>	<u>81,492</u>	<u>144,262</u>	<u>(32,728)</u>
Total Net Assets	<u>1,806,200</u>	<u>1,075,810</u>	<u>2,882,010</u>	<u>55,384</u>
Total Liabilities and Net Assets	<u>\$ 2,256,938</u>	<u>\$ 1,314,540</u>	<u>\$ 3,571,478</u>	<u>\$ 124,341</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2005

	<u>Enterprise Funds</u>		<u>Total</u>	<u>Internal</u>
	<u>Sewer</u>	<u>Water</u>	<u>Enterprise</u>	<u>Service Fund</u>
	<u>System</u>	<u>System</u>	<u>Funds</u>	<u>Motor</u>
				<u>Pool</u>
Operating Revenues				
Licenses and Permits	\$ 2,267	\$ 700	\$ 2,967	\$ -
Charges for Services	263,427	162,886	426,313	81,225
Other Operating Revenue	<u>1,795</u>	<u>8,308</u>	<u>10,103</u>	<u>635</u>
Total Operating Revenues	<u>267,489</u>	<u>171,894</u>	<u>439,383</u>	<u>81,860</u>
Operating Expenses				
Salaries and Fringe Benefits	82,391	77,729	160,120	44,734
Supplies	10,919	8,510	19,429	2,948
Professional Services	6,629	5,636	12,265	1,728
Insurance and Bonds	6,930	7,851	14,781	7,399
Maintenance and Repairs	17,238	9,771	27,009	12,595
Gas and Oil	-	-	-	7,789
Miscellaneous	414	1,581	1,995	189
Equipment Rental	13,307	8,659	21,966	-
Transportation	660	689	1,349	880
Utilities	20,397	13,663	34,060	2,220
Depreciation	<u>95,165</u>	<u>31,664</u>	<u>126,829</u>	<u>10,888</u>
Total Operating Expenses	<u>254,050</u>	<u>165,753</u>	<u>419,803</u>	<u>91,370</u>
Operating Income	<u>13,439</u>	<u>6,141</u>	<u>19,580</u>	<u>(9,510)</u>
Nonoperating Revenues (Expenses)				
Interest Earned on Investments	6,739	3,086	9,825	211
Interest Expense	<u>(24,400)</u>	<u>(6,942)</u>	<u>(31,342)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(17,661)</u>	<u>(3,856)</u>	<u>(21,517)</u>	<u>211</u>
Change in Net Assets	(4,222)	2,285	(1,937)	(9,299)
Net Assets-January 1, 2005	<u>1,810,422</u>	<u>1,073,525</u>	<u>2,883,947</u>	<u>64,683</u>
Net Assets-December 31, 2005	<u>\$ 1,806,200</u>	<u>\$ 1,075,810</u>	<u>\$ 2,882,010</u>	<u>\$ 55,384</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2005

	<u>Enterprise Funds</u>		<u>Total</u>	<u>Internal</u>
	<u>Sewer</u>	<u>Water</u>	<u>Enterprise</u>	<u>Service Fund</u>
	<u>System</u>	<u>System</u>	<u>Funds</u>	<u>Motorpool</u>
Cash Flows From Operating Activities:				
Cash Charges for Services	\$ 267,054	\$ 177,413	\$ 444,467	\$ 81,225
Other Operating Revenue	1,795	8,308	10,103	635
Cash Payments to Employees for Services	(84,494)	(76,760)	(161,254)	(44,008)
Cash Payments to Suppliers for Goods and Services	<u>(76,494)</u>	<u>(56,360)</u>	<u>(132,854)</u>	<u>(35,748)</u>
Net Cash Provided by Operating Activities	<u>107,861</u>	<u>52,601</u>	<u>160,462</u>	<u>2,104</u>
Cash Flows From Capital and Related Financing Activities:				
Payment of Principal	(40,000)	(40,000)	(80,000)	-
Payment of Interest	<u>(24,400)</u>	<u>(7,075)</u>	<u>(31,475)</u>	<u>-</u>
Net Cash Used by Capital and Related Financing Activities	<u>(64,400)</u>	<u>(47,075)</u>	<u>(111,475)</u>	<u>-</u>
Cash Flows From Investing Activities:				
Interest Earned on Cash Equivalents and Investments	6,739	3,086	9,825	211
Purchase of Fixed Assets	<u>(247,300)</u>	<u>-</u>	<u>(247,300)</u>	<u>(19,987)</u>
Net Cash Provided (Used) by Investing Activities	<u>(240,561)</u>	<u>3,086</u>	<u>(237,475)</u>	<u>(19,776)</u>
Net Increase in Cash and Cash Equivalents	(197,100)	8,612	(188,488)	(17,672)
Cash and Cash Equivalents at Beginning of the Year	<u>364,102</u>	<u>118,236</u>	<u>482,338</u>	<u>53,901</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 167,002</u>	<u>\$ 126,848</u>	<u>\$ 293,850</u>	<u>\$ 36,229</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 13,439	\$ 6,141	\$ 19,580	\$ (9,510)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	95,165	31,664	126,829	10,888
Decrease (Increase) in Accounts Receivable	1,360	13,827	15,187	-
Increase (Decrease) in Accounts Payable	<u>(2,103)</u>	<u>969</u>	<u>(1,134)</u>	<u>726</u>
Net Cash Provided by Operating Activities	<u>\$ 107,861</u>	<u>\$ 52,601</u>	<u>\$ 160,462</u>	<u>\$ 2,104</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Homer conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Homer:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Village's activities

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

REPORTING ENTITY

The Village of Homer was incorporated as a village in 1871 and is situated in the southeastern corner of Calhoun County. The Village operates under an elected council of seven members and provides services to its almost 2,000 residents in many areas including police and fire protection and highway and street maintenance. Education services are provided to citizens through several local school districts that are separate governmental entities. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Village, there are no component units to be included in these financial statements.

JOINT VENTURES

South Central Michigan Construction Code Inspection

The Village of Homer is a member of the South Central Michigan Construction Code Inspection, Incorporated, which is organized to administer and enforce certain construction codes and ordinances adopted by each of the member municipalities. SCMCCI consists of seventeen member municipalities in Michigan. Each participating municipality selects a representative to SCMCCI. These include City of Albion, Athens Village, Brady Township, Burlington Township, Burr Oak Township, Burr Oak Village, Climax Township, Colon Township, Convis Township, Village of Homer, Homer Township, Leonidas Township, NHPB-Indian Housing Authority, Park Township, Sherman Township, Springport Village and Wakeshma Township. SCMCCI charges homeowners and builders a fee for permits and inspections. The members do not have an ownership interest in SCMCCI, and are not entitled to any share of net assets as a result of termination of membership.

The following financial information of the joint venture is as of and for the year ending March 31, 2006:

Total Assets	\$ 113,491	Total Revenues	\$ 1,015,449
Total Liabilities	\$ 43,976	Total Expenditures	\$ 1,080,467
Total Net Assets	\$ 69,515	Increase (Decrease) in Net Assets	\$ (65,018)
Total Joint Venture Outstanding Debt	\$ -		\$

Complete financial statements for the joint venture may be obtained from:

Lea Anne Nowlin
Village of Homer
203 N Main Street
Homer, MI 49073
517-568-4321

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when cash is received by the Village.

Taxes Receivable - The Village property tax is levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st.

It is the Village's policy to recognize revenue from the current tax levy in the year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

The 2005 State taxable valuation of the Village totaled \$24,218,058 on which ad valorem taxes levied consisted of 11.6983 mills for Village operating purposes, 4.6793 mills for Village street operations, and 0.7250 mills for building authority, raising \$283,310 for operating, \$113,324 for street operations and \$17,558 for building authority. The amounts recognized in the General Fund financial statements as current property tax revenue represent 2005 taxes collected and 2004 delinquent taxes collected in the current fiscal year.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the maintenance of all major streets and trunk lines. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Local Street Fund accounts for the maintenance of all local streets. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Library Fund accounts for the revenue and expenses for the operation of the library.
- The Fire Fund accounts for the revenue and expenses for the operation of the fire department.

The Village reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the water supply system, capital additions, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.
- The Sewer Fund accounts for the operation and maintenance of the sewage disposal system, capital additions, and improvements and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.

Additionally, the government reports the following fund types:

- The Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow private-sector standards.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current cost (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st. These taxes are due on August 31 with the final collection date of September 15. After that date, they are added to the county's delinquent tax rolls.

The delinquent real property taxes of the Village are purchased by Calhoun County. These taxes have been recorded as deferred revenue in the fund financial statements for the current year since they are not available to fund expenditures of the current period.

Designated Assets - The Village has designated assets for public safety, community interest and equipment. By designating a portion of fund balance for a specific purpose, the Village Council has established a policy that the amounts designated are to be used for a specific purpose. The Village Council can change the amounts so designated if they desire.

Restricted Assets - The Village has restricted assets for building authority. By restricting a portion of the fund balance for a specific purpose, the Village has limited the use of the funds for that specific purpose only. The Village Council cannot change the amounts restricted and cannot spend the restricted funds for anything other than building authority. The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, capital improvements and a bond reserve. These amounts have been classified as restricted assets.

Retained Earnings Reserve - In the Sewer and Water System funds, certain amounts of the retained earnings are reserved for bond and interest redemption and capital improvements. The amounts of the reserves are established by bond ordinances. Any use of the reserve balances would be a violation of the bond ordinances.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

General Assets

Buildings and Improvements	20 to 60 years
Water and Sewer Lines	50 to 75 years
Furniture	5 to 10 years
Data Processing Equipment	2 to 7 years
Equipment	2 to 7 years

Infrastructure Assets

Road	8 to 30 years
Sidewalks	10 to 30 years
Bridges	12 to 50 years
Drains, Curbs, Gutters	8 to 40 years

Compensated Absences (Vacation and Sick Leave) - Vacation pay is earned by all full time employees according to the length of their employment and is available for use annually, not on an accrual basis. Vacation time is paid at the employee's current pay rate and must be used in the year available. Any unused vacation time at the nearest pay date to their anniversary date is paid out to the employee's current rate of pay. Upon termination of employment, employees will be paid for all unused vacation time.

Full time employees earn personal time of twenty-four hours each year. Personal time is earned based on the employee's anniversary date. Employees may not accumulate personal time from year-to-year.

Sick leave time is earned at the rate of twelve days per year by full time employees. Sick leave is paid at the employee's current rate of pay and benefits can accumulate to a maximum of 60 days. Sick leave accrued is to be paid to the employees at for any unused accumulated sick leave at the time of termination of employment for any reason.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Homer.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The Village Boards prepares the annual budgets prior to December 31. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2005, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

FUND	BUDGET APPROPRIATION	ACTUAL EXPENDITURE	BUDGET VARIANCE
General			
Legislative	\$ 10,687	\$ 11,434	\$ 747
General Government:			
Attorney	\$ 2,500	\$ 3,124	\$ 624
Clerk	\$ 31,638	\$ 32,036	\$ 398
Public Safety			
Police	\$ 267,544	\$ 306,664	\$ 39,120
Recreational and Cultural			
Library	\$ 6,273	\$ 6,606	\$ 333
Other			
Debt Service	\$ -	\$ 8,846	\$ 8,846
Major Street			
Public Works			
Street Administration	\$ 19,091	\$ 23,183	\$ 4,092
Operating Transfer Out	\$ 22,500	\$ 24,905	\$ 2,405

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated one bank and two investment companies for the deposit of the Village of Homer funds.

The Village's deposits and investments are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>FIDUCIARY FUNDS</u>	<u>TOTAL PRIMARY GOVERNMENT</u>
Cash and Cash Equivalents	\$ 1,086,201	\$ 55,640	\$ -	\$ 1,141,841
Investments	11,350	-	-	11,350
Restricted Assets	<u>79,159</u>	<u>238,210</u>	<u>-</u>	<u>317,369</u>
Total	<u>\$ 1,176,710</u>	<u>\$ 293,850</u>	<u>\$ -</u>	<u>\$ 1,470,560</u>

The breakdown between deposits and investments is as follows:

	<u>PRIMARY GOVERNMENT</u>
Bank Deposits	\$ 1,232,225
(Checking and Savings Accounts, Certificates of Deposit)	
Investment in Securities	238,210
(Mutual Funds and Similar Vehicles)	
Petty Cash and Cash on Hand	<u>125</u>
Total	<u>\$ 1,470,560</u>

At December 31, 2005, the Village had deposits with a carrying amount of \$1,470,435 and a bank balance of \$1,544,815. Of the bank balance, \$369,607 is covered by federal depository insurance, \$1,175,208 is uninsured and \$0 is collateralized.

The Village's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ADJUST- MENTS</u>	<u>ENDING BALANCE</u>
Governmental Activities					
Capital Assets not Being Depreciated					
Land	\$ 75,676	\$ -	\$ -	\$ -	\$ 75,676
Subtotal	<u>75,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,676</u>
Capital Assets Being Depreciated					
Buildings	2,419,850	-	-	23,587	2,443,437
Land Improvements	-	-	-	-	-
Furniture	-	-	-	119,950	119,950
Equipment	2,949,808	55,357	-	(578,702)	2,426,463
Data Processing Equipment	-	2,488	-	34,346	36,834
Infrastructure	<u>77,442</u>	<u>13,335</u>	<u>-</u>	<u>-</u>	<u>90,777</u>
Subtotal	<u>5,447,100</u>	<u>71,180</u>	<u>-</u>	<u>(400,819)</u>	<u>5,117,461</u>
Less Accumulated Depreciation for					
Buildings	1,194,691	50,466	-	(10,187)	1,234,970
Furniture	-	9,199	-	50,085	59,284
Equipment	1,698,976	128,522	-	(420,502)	1,406,996
Data Processing Equipment	-	5,102	-	19,764	24,866
Infrastructure	<u>3,019</u>	<u>5,250</u>	<u>-</u>	<u>-</u>	<u>8,269</u>
Subtotal	<u>2,896,686</u>	<u>198,539</u>	<u>-</u>	<u>(360,840)</u>	<u>2,734,385</u>
Net Capital Assets Being					
Depreciated	<u>2,550,414</u>	<u>(127,359)</u>	<u>-</u>	<u>(39,979)</u>	<u>2,383,076</u>
Governmental Activities Total					
Capital Assets-Net of Depreciation	<u>\$2,626,090</u>	<u>\$ (127,359)</u>	<u>\$ -</u>	<u>\$ (39,979)</u>	<u>\$2,458,752</u>

The adjustments to governmental and business-type capital assets reflect corrections made during the current year to adjust the carrying balances to the Village's actual physical asset listing and eliminate all assets under the Village's cost threshold of \$500.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

CAPITAL ASSETS (Continued)

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ADJUST- MENTS</u>	<u>ENDING BALANCE</u>
Business-Type Activities					
Capital Assets not Being Depreciated					
Land	\$ 152,000	\$ -	\$ -	\$ -	\$ 152,000
Subtotal	152,000	-	-	-	152,000
Capital Assets Being Depreciated					
Buildings	322,107	-	-	-	322,107
Equipment	60,971	-	-	(12,708)	48,263
Sewer Plant	3,377,336	247,300	94,000	-	3,530,636
Infrastructure	2,636,625	-	-	(1,827)	2,634,798
Subtotal	6,397,039	247,300	94,000	(14,535)	6,535,804
Less Accumulated Depreciation for					
Buildings	291,214	2,752	-	-	293,966
Equipment	31,423	2,840	-	(12,264)	21,999
Sewer Plant	1,653,579	91,700	94,000	-	1,651,279
Infrastructure	1,509,396	29,537	-	(911)	1,538,022
Subtotal	3,485,612	126,829	94,000	(13,175)	3,505,266
Net Capital Assets Being Depreciated	2,911,427	120,471	-	(1,360)	3,030,538
Business-Type Activities Total Capital Assets-Net of Depreciation	<u>\$ 3,063,427</u>	<u>\$ 120,471</u>	<u>\$ -</u>	<u>\$ (1,360)</u>	<u>\$ 3,182,538</u>

Depreciation expense was charged to programs of the Village as follows:

Governmental Activities

General Government	\$ 7,720
Public Safety	139,280
Recreation and Cultural	40,651
Motorpool	10,888

Total Government Activities \$ 198,539

Business-Type Activities

Water	\$ 31,664
Sewer	95,165

Total Business-Type Activities \$ 126,829

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>FUND</u>	<u>INTERFUND PAYABLES</u>
Local Streets	\$ 67,587	Fire Fund	\$ 4,500
Building Authority	4,500	Motorpool	67,587
	<u>\$ 72,087</u>		<u>\$ 72,087</u>

Interfund balances represent purchases of equipment. It has not been determined when the advances will be repaid.

<u>FUND</u>	<u>TRANSFERS IN</u>	<u>FUND</u>	<u>TRANSFERS OUT</u>
General	\$ 8,000	General	\$ 100,261
Local Streets	24,908	Major Streets	24,908
Library	32,000	Parks Maintenance	8,000
Fire	53,485	Park System	68
Parks Maintenance	68	Locally Admin Streets	-
Fire Truck	14,776	Local Streets	-
	<u>\$ 133,237</u>		<u>\$ 133,237</u>

Transfers were used to move revenues from the fund that is required to collect them to the fund where expenditures were expended and to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In addition, the major street fund is allowed under Act 51 to share a portion of its tax revenues with the local street fund.

LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

LONG-TERM DEBT (Continued)

The following is a summary of the debt outstanding of the Village of Homer as of December 31, 2005:

	<u>INTEREST RATE</u>	<u>PRINCIPAL MATURES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITION (REDUCTIONS)</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
Primary Government						
Governmental Activities						
Building Authority Bonds	5.00%	2015	80,000	(8,000)	72,000	8,000
Lease Payable	6.30%	2008	-	20,678	20,678	7,779
Other Liabilities						
Compensated Absences	-	-	32,394	14,373	46,767	46,767
Business-Type Activities						
Revenue Bonds						
2004 Water System	2.00-3.25%	2010	275,000	(40,000)	235,000	45,000
Sewer Contracts	5.00%	2017	<u>488,000</u>	<u>(40,000)</u>	<u>448,000</u>	<u>40,000</u>
Total Business-Type Activities			<u>\$ 795,394</u>	<u>\$ (65,627)</u>	<u>\$ 729,767</u>	<u>\$ 131,767</u>

The compensated absence liability attributable to the governmental activities will be liquidated by the Village's governmental funds. The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 15,779	\$ 4,903	\$ 85,000	\$ 28,678
2007	14,884	4,095	85,000	25,775
2008	15,318	3,260	85,000	22,763
2009	8,000	2,400	90,000	19,527
2010	8,000	2,200	90,000	16,027
2011-2017	<u>32,000</u>	<u>3,800</u>	<u>248,000</u>	<u>42,995</u>
Total	<u>\$ 93,981</u>	<u>\$ 20,658</u>	<u>\$ 683,000</u>	<u>\$ 155,765</u>

RISK MANAGEMENT

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its risk exposure and provides certain employee benefits thorough a combination of risk management pools and commercial insurance.

The Village participates in the Michigan Municipal League for general and automobile liability, motor vehicle physical damage, property damage, and workers compensation coverages. The Michigan Municipal Liability and Property Pool were established pursuant to laws of the State of Michigan, which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

RISK MANAGEMENT (Continued)

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member.

The Village also provides employee benefits through the Michigan Municipal League with programs underwritten by commercial insurance carriers.

At December 31, 2005, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.

RETIREMENT PLAN

The Village has a defined benefit pension plan covering substantially all full-time employees. The plan is operated by the State of Michigan Municipal Employees Retirement System (MERS), which is a cost sharing, multiple-employer retirement system. MERS issues a publicly available financial report that includes financial statements and requires supplemental information. The report may be obtained by writing to the System at 1147 Municipal Way, Lansing, MI 48917.

The pension plan provides pension, death and disability benefits. Benefits vest after 10 years of service. Normal retirement is based on one of the following requirements:

1. Age 60 and 10 or more years of credited service.
2. Age 55 and 15 or more years of credited service (reduced benefit).
3. Age 50 and 25 or more years of credited service (reduced benefit).

Pension Benefit Obligation

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year, (c) additional projected salary increases based on an age related scale to reflect seniority/merit, (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, and (e) withdrawal rates based on years of service for members less than five years of service, and based on age for members over five years of service. Both (a) and (b) include an inflation assumption of 4.5% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a ten year period. The standard amortization period to fund the unfunded liability is 25 years for positive unfunded liabilities, and 10 years for negative unfunded liabilities (assets exceed liabilities).

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

RETIREMENT PLAN (Continued)

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates using the entry age normal method that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The Village has not made any contributions for the eight years preceding January 1, 2003. Under the Accelerated Funding Credits Program, municipalities with funding percentages that exceed 110% are not required to make annual contributions.

The funding percentage is based on the ratio of assets (at actuarial value) to the actuarial accrued liabilities. The Village's funding percentages have exceeded 110% for the preceding eight years.

Three-year trend information as of December 31 follows:

	2005	2004	2003
Annual Pension Cost	\$ 6,321	\$ 4,745	\$ 3,227
Percentage of APC Contributed	100.00%	100.00%	100.00%
Net Pension Obligation	-	-	-
(A) Actuarial Value of Assets	944,531	907,436	871,069
(B) Actuarial Accrued Liability	813,011	744,518	727,157
(C) Excess of Assets Over AAL (A)-(B)	131,520	162,918	143,912
(D) Funded Ratio (A)/(B)	116.18%	121.88%	119.79%
(E) Covered Payroll	362,756	315,653	394,118
(F) Excess Percentage of Covered Payroll (C)/(E)	36.26%	36.51%	36.51%

DEFERRED COMPENSATION PLAN

The Village offers an optional deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The plan is available to one employee and allows the participant to defer a portion of current income to further years to shelter such funds and earning from state and federal taxation until withdrawal. The deferred compensation is not available to the participant until the employee's termination, retirement, death or unforeseeable emergency.

The plan is administered through a third-party administrator. The Village does not perform the investing function and has no fiduciary accountability for the plan. Thus, plan assets and any related liabilities to the plan participant have been excluded from the Village's basic financial statements.

VILLAGE OF HOMER
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

PRIOR PERIOD ADJUSTMENT

Certain errors, resulting in the understatement of fund balance in the prior year, were corrected during the December 31, 2005 audit. The cumulative effect on fund balance from this error is as follows:

	<u>Fund Balance</u> <u>12/31/04</u>	<u>Prior Period</u> <u>Adjustments</u>	<u>Restated Fund</u> <u>12/31/04</u>
General Fund			
State Shared Revenue receivable not recorded	\$ 79,236	\$ 39,883	\$ 119,119
Lake Improvement Fund			
Deferred revenue incorrectly reported	(11,642)	15,707	4,065
Sewer Fund			
Beginning accounts receivable balance was incorrect	1,830,311	(21,190)	
Accrued Wages was incorrectly stated		1,523	
Fixed assets under \$500 threshold were eliminated		(222)	1,810,422
Water Fund			
Beginning accounts receivable balance was incorrect	1,057,390	(4,346)	
Accrued Wages was incorrectly stated		11,461	
Cash balances were stated incorrectly		10,158	
Fixed assets under \$500 threshold were eliminated		(1,138)	1,073,525
Motorpool Fund			
Accrued Wages was incorrectly stated	58,998	6,004	
Fixed assets under \$500 threshold were eliminated		(319)	64,683

VILLAGE OF HOMER
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended December 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 119,119	\$ 119,119	\$ 119,119	\$ -
Resources (Inflows)				
Taxes and Penalties	287,070	287,070	273,111	(13,959)
Licenses and Permits	4,500	6,192	5,767	(425)
State Grants	221,000	221,000	217,947	(3,053)
Charges for Services	7,000	38,139	53,750	15,611
Fines and Forfeitures	8,700	8,715	3,938	(4,777)
Interest and Rentals	15,200	16,900	15,235	(1,665)
Other Revenue	<u>12,150</u>	<u>16,782</u>	<u>1,849</u>	<u>(14,933)</u>
Total Resources	<u>555,620</u>	<u>594,798</u>	<u>571,597</u>	<u>(23,201)</u>
Charges to Appropriations (Outflows)				
Legislative	12,745	10,687	11,434	(747)
General Government				
President	24,740	25,864	25,129	735
Election	350	50	-	50
Accounting Department	24,125	25,905	24,923	982
Attorney	4,500	2,500	3,124	(624)
Clerk	29,585	31,638	32,036	(398)
Treasurer	26,585	27,341	22,878	4,463
Buildings and Grounds	30,850	31,911	28,877	3,034
Public Safety				
Police	225,170	252,384	273,916	(21,532)
Planning and Zoning	1,300	820	795	25
Public Works				
Street Lighting	31,000	30,500	27,629	2,871
Sidewalk Replacement	13,550	14,281	14,202	79
Locally Administered Streets	4,565	6	5	1
Recreational and Cultural				
Parks	17,465	12,237	11,814	423
Promotional	6,415	6,273	6,606	(333)
Capital Outlay	10,000	15,160	32,748	(17,588)
Debt Service	<u>-</u>	<u>-</u>	<u>8,846</u>	<u>(8,846)</u>
Total Charges to Appropriations	<u>462,945</u>	<u>487,557</u>	<u>524,962</u>	<u>(37,405)</u>

VILLAGE OF HOMER
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)
For the Year Ended December 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Excess of Resources Over (Under) Appropriations	<u>92,675</u>	<u>107,241</u>	<u>46,635</u>	<u>(60,606)</u>
Other Financing Sources (Uses)				
Lease Proceeds	-	-	28,456	28,456
Operating Transfers In	8,000	8,000	8,000	-
Operating Transfers (Out)	<u>(100,261)</u>	<u>(100,261)</u>	<u>(100,261)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(92,261)</u>	<u>(92,261)</u>	<u>(63,805)</u>	<u>28,456</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>414</u>	<u>14,980</u>	<u>(17,170)</u>	<u>(32,150)</u>
Budgetary Fund Balance - February 28, 2006	<u>\$ 119,533</u>	<u>\$ 134,099</u>	<u>\$ 101,949</u>	<u>\$ (32,150)</u>

VILLAGE OF HOMER
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended December 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 93,471	\$ 93,471	\$ 93,471	\$ -
Resources (Inflows)				
State Grants	90,000	90,000	99,450	9,450
Interest and Rentals	300	300	498	198
Other Revenue	<u>400</u>	<u>400</u>	<u>6,877</u>	<u>6,477</u>
Total Resources	<u>90,700</u>	<u>90,700</u>	<u>106,825</u>	<u>16,125</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	9,395	19,091	23,183	(4,092)
Street Routine Maintenance	81,565	82,742	56,879	25,863
Street Winter Maintenance	13,835	13,835	10,635	3,200
Traffic Services	3,668	3,045	2,605	440
Trees	12,155	9,940	6,725	3,215
Trunkline Maintenance	-	-	-	-
Street Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Charges to Appropriations	<u>120,618</u>	<u>128,653</u>	<u>100,027</u>	<u>28,626</u>
Excess of Resources Over (Under) Appropriations	<u>(29,918)</u>	<u>(37,953)</u>	<u>6,798</u>	<u>44,751</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	-	-
Operating Transfers Out	<u>(22,500)</u>	<u>(22,500)</u>	<u>(24,908)</u>	<u>(2,408)</u>
Total Other Financing Sources (Uses)	<u>(22,500)</u>	<u>(22,500)</u>	<u>(24,908)</u>	<u>(2,408)</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>(52,418)</u>	<u>(60,453)</u>	<u>(18,110)</u>	<u>42,343</u>
Budgetary Fund Balance - December 31, 2005	<u>\$ 41,053</u>	<u>\$ 33,018</u>	<u>\$ 75,361</u>	<u>\$ 42,343</u>

VILLAGE OF HOMER
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND
For the Year Ended December 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning of Year Fund Balance	\$ 559,427	\$ 559,427	\$ 559,427	\$ -
Resources (Inflows)				
Taxes and Penalties	100,100	100,100	107,545	7,445
State Grants	34,000	34,000	39,211	5,211
Interest and Rentals	1,000	1,000	3,312	2,312
Other Revenue	<u>400</u>	<u>400</u>	<u>237</u>	<u>(163)</u>
Total Resources	<u>135,500</u>	<u>135,500</u>	<u>150,305</u>	<u>14,805</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	10,195	9,234	8,624	610
Street Routine Maintenance	91,680	92,641	55,319	37,322
Street Winter Maintenance	12,050	12,050	7,395	4,655
Traffic Services	4,225	4,225	299	3,926
Trees	12,055	12,055	9,964	2,091
Street Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Charges to Appropriations	<u>130,205</u>	<u>130,205</u>	<u>81,601</u>	<u>48,604</u>
Excess of Resources Over (Under) Appropriations	<u>5,295</u>	<u>5,295</u>	<u>68,704</u>	<u>63,409</u>
Other Financing Sources (Uses):				
Operating Transfers In	22,500	22,500	24,908	2,408
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>22,500</u>	<u>22,500</u>	<u>24,908</u>	<u>2,408</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>27,795</u>	<u>27,795</u>	<u>93,612</u>	<u>65,817</u>
Budgetary Fund Balance - December 31, 2005	<u>\$ 587,222</u>	<u>\$ 587,222</u>	<u>\$ 653,039</u>	<u>\$ 65,817</u>

VILLAGE OF HOMER
BUDGETARY COMPARISON SCHEDULE - LIBRARY FUND
For the Year Ended December 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning of Year Fund Balance	\$ 97,309	\$ 97,309	\$ 97,309	\$ -
Resources (Inflows)				
State Grants	3,660	3,660	1,828	(1,832)
Contributions from Local Units	72,085	76,780	92,559	15,779
Fines and Forfeits	14,665	14,013	13,889	(124)
Interest and Rentals	2,800	3,928	4,026	98
Other Revenue	<u>1,000</u>	<u>2,285</u>	<u>1,529</u>	<u>(756)</u>
Total Resources	<u>94,210</u>	<u>100,666</u>	<u>113,831</u>	<u>13,165</u>
Charges to Appropriations (Outflows)				
Recreation and Cultural:				
Wages and Fringes	100,753	100,753	103,213	(2,460)
Training	1,200	1,200	939	261
Supplies	3,100	3,200	3,991	(791)
Books and Magazines	12,000	12,000	10,552	1,448
Telephone	2,200	2,200	1,613	587
Contracted Services	2,600	2,600	2,317	283
Professional Services	3,600	3,600	3,031	569
Printing and Publishing	850	850	1,094	(244)
Insurance	1,500	1,500	1,497	3
Transportation	300	400	371	29
Maintenance and Repairs	750	750	398	352
Utilities	7,000	7,000	6,325	675
Capital Outlay	<u>3,000</u>	<u>3,000</u>	<u>1,914</u>	<u>1,086</u>
Total Charges to Appropriations	<u>138,853</u>	<u>139,053</u>	<u>137,255</u>	<u>1,798</u>
Excess of Resources Over (Under) Appropriations	<u>(44,643)</u>	<u>(38,387)</u>	<u>(23,424)</u>	<u>14,963</u>

VILLAGE OF HOMER
BUDGETARY COMPARISON SCHEDULE - LIBRARY FUND (Continued)
For the Year Ended December 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Other Financing Sources (Uses):				
Operating Transfers In	32,000	32,000	32,000	-
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>32,000</u>	<u>32,000</u>	<u>32,000</u>	<u>-</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>(12,643)</u>	<u>(6,387)</u>	<u>8,576</u>	<u>14,963</u>
Budgetary Fund Balance - December 31, 2005	<u>\$ 84,666</u>	<u>\$ 90,922</u>	<u>\$ 105,885</u>	<u>\$ 14,963</u>

VILLAGE OF HOMER
BUDGETARY COMPARISON SCHEDULE - FIRE FUND
For the Year Ended December 31, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning of Year Fund Balance	\$ 34,333	\$ 34,333	\$ 34,333	\$ -
Resources (Inflows)				
Contributions from Local Units	145,250	145,250	99,416	(45,834)
Interest and Rentals	-	-	282	282
Other Revenue	-	-	519	519
Total Resources	<u>145,250</u>	<u>145,250</u>	<u>100,217</u>	<u>(45,033)</u>
Charges to Appropriations (Outflows)				
Public Safety:				
Wages and Fringes	64,600	70,493	70,493	-
Training	2,500	4,267	4,262	5
Supplies	5,000	4,050	5,135	(1,085)
Telephone	1,900	1,500	1,073	427
Professional Fees	1,500	835	835	-
Printing and Publishing	500	96	96	-
Insurance and Bonds	32,000	37,266	37,266	-
Repairs and Maintenance	10,250	8,028	9,003	(975)
Gas and Oil	3,000	3,672	3,618	54
Rent	4,500	4,500	3,780	720
Uniforms	5,600	190	189	1
Utilities	7,400	7,400	6,694	706
Capital Outlay	<u>6,500</u>	<u>4,281</u>	<u>3,196</u>	<u>1,085</u>
Total Charges to Appropriations	<u>145,250</u>	<u>146,578</u>	<u>145,640</u>	<u>938</u>
Excess of Resources Over (Under) Appropriations	<u>-</u>	<u>(1,328)</u>	<u>(45,423)</u>	<u>(44,095)</u>

VILLAGE OF HOMER
BUDGETARY COMPARISON SCHEDULE - FIRE FUND (Continued)
For the Year Ended December 31, 2005

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Other Financing Sources (Uses):				
Operating Transfers In	-	-	53,485	53,485
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>53,485</u>	<u>53,485</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>-</u>	<u>(1,328)</u>	<u>8,062</u>	<u>9,390</u>
Budgetary Fund Balance - December 31, 2005	<u>\$ 34,333</u>	<u>\$ 33,005</u>	<u>\$ 42,395</u>	<u>\$ 9,390</u>

VILLAGE OF HOMER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2005

REVENUES	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Taxes and Penalties				
Property Taxes			\$ 269,039	
Collection Fees			4,072	
Total Taxes and Penalties	\$ 287,070	\$ 287,070	273,111	\$ (13,959)
Licenses and Permits				
Franchise Fees			3,576	
Liquor License Fees			2,191	
Total Licenses and Permits	4,500	6,192	5,767	(425)
State Grants				
Public Safety				
State Revenue Sharing:				
Sales Tax			217,947	
Total State Grants	221,000	221,000	217,947	(3,053)
Charges for Services				
Charges for Services			53,750	
Total Charges for Services	7,000	38,139	53,750	15,611
Fines and Forfeitures	8,700	8,715	3,938	(4,777)
Interest and Rentals				
Interest			15	
Rentals			15,220	
Total Interest and Rentals	15,200	16,900	15,235	(1,665)
Other Revenue				
Miscellaneous			447	
Donations			500	
Refunds and Rebates			902	
Total Other Revenue	12,150	16,782	1,849	(14,933)
Total Revenues	555,620	594,798	571,597	(23,201)

VILLAGE OF HOMER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2005

EXPENDITURES	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Legislative:				
Salaries - Village Council			5,558	
Payroll Taxes			510	
Education			160	
Supplies			667	
Telephone			158	
Professional Fees			1,547	
Printing and Postage			2,616	
Miscellaneous			50	
Maintenance and Repairs			<u>168</u>	
Total Legislative	<u>12,745</u>	<u>10,687</u>	<u>11,434</u>	<u>(747)</u>
General Government:				
Village President:				
Salary			14,546	
Payroll Taxes			1,284	
Fringe Benefits			4,390	
Education			30	
Supplies			1,151	
Telephone			1,370	
Dues and Memberships			293	
Transportation			1,200	
Maintenance and Repairs			260	
Utilities			<u>605</u>	
Total Village President	<u>24,740</u>	<u>25,864</u>	<u>25,129</u>	<u>735</u>
Elections	<u>350</u>	<u>50</u>	<u>-</u>	<u>50</u>
Accounting Department:				
Salary			10,586	
Payroll Taxes			861	
Fringe Benefits			5,794	
Supplies			970	
Telephone			441	
Maintenance and Repairs			1,555	
Professional Services			4,112	
Utilities			<u>604</u>	
Total Accounting Department	<u>24,125</u>	<u>25,905</u>	<u>24,923</u>	<u>982</u>
Attorney	<u>4,500</u>	<u>2,500</u>	<u>3,124</u>	<u>(624)</u>

VILLAGE OF HOMER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2005

<u>EXPENDITURES (Continued)</u>	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Village Clerk:				
Salary			17,786	
Payroll Taxes			1,413	
Fringe Benefits			7,037	
Supplies			1,068	
Telephone			699	
Professional Services			1,316	
Printing and Postage			18	
Insurance			590	
Miscellaneous			1,315	
Maintenance and Repairs			190	
Utilities			604	
Total Village Clerk	29,585	31,638	32,036	(398)
Treasurer:				
Salary			13,012	
Payroll Taxes			1,056	
Fringe Benefits			4,960	
Supplies			1,040	
Telephone			461	
Professional Services			1,496	
Insurance			663	
Maintenance and Repairs			190	
Total Treasurer	26,585	27,341	22,878	4,463
Buildings and Grounds:				
Maintenance Wages			2,925	
Payroll Taxes			391	
Fringe Benefits			1,418	
Telephone			540	
Professional Services			6,813	
Equipment Rental			1,445	
Insurance			5,030	
Maintenance and Repairs			2,773	
Utilities			7,542	
Total Buildings and Grounds	30,850	31,911	28,877	3,034
Total General Government	140,735	145,209	136,967	8,242

VILLAGE OF HOMER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2005

<u>EXPENDITURES (Continued)</u>	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Public Safety:				
Police:				
Salaries and Wages			129,759	
Payroll Taxes			12,884	
Fringes			38,949	
Education			2,584	
Supplies			6,996	
Telephone			4,341	
Professional Services			29,096	
Printing and Postage			192	
Insurance			28,500	
Auto			5,607	
Miscellaneous			758	
Maintenance and Repairs			11,231	
Uniforms			2,095	
Utilities			924	
Capital Outlay			<u>32,748</u>	
Total Police	235,170	267,544	<u>306,664</u>	(39,120)
Planning and Zoning:				
Supplies			68	
Professional Services			592	
Printing and Postage			<u>135</u>	
Total Planning and Zoning	<u>1,300</u>	<u>820</u>	<u>795</u>	<u>25</u>
Total Public Safety	<u>236,470</u>	<u>268,364</u>	<u>307,459</u>	<u>(39,095)</u>
Public Works:				
Street Lighting:				
Insurance			7,553	
Utilities			<u>20,076</u>	
Total Street Lighting	31,000	30,500	<u>27,629</u>	2,871
Sidewalk Replacement:				
Fringe Benefits			867	
Maintenance and Repairs			<u>13,335</u>	
Total Sidewalk Replacement	13,550	14,281	<u>14,202</u>	79

VILLAGE OF HOMER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2005

<u>EXPENDITURES (Continued)</u>	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Locally Administered Streets:				
Snow Removal			<u>5</u>	
Total Locally Administered Streets	<u>4,565</u>	<u>6</u>	<u>5</u>	<u>1</u>
Total Public Works	<u>49,115</u>	<u>44,787</u>	<u>41,836</u>	<u>2,951</u>
Recreation and Cultural:				
Parks:				
Wages			4,016	
Payroll Taxes			306	
Fringe Benefits			1,355	
Equipment Rental			5,098	
Maintenance and Repairs			242	
Insurance			<u>797</u>	
Total Parks	17,465	12,237	<u>11,814</u>	423
Promotional:				
Wages			2,100	
Payroll Taxes			159	
Fringe Benefits			227	
Supplies			344	
Printing and Postage			798	
Equipment Rental			787	
Maintenance and Repairs			1,030	
Utilities			<u>1,161</u>	
Total Promotional	<u>6,415</u>	<u>6,273</u>	<u>6,606</u>	<u>(333)</u>
Total Recreation and Cultural	<u>23,880</u>	<u>18,510</u>	<u>18,420</u>	<u>90</u>

VILLAGE OF HOMER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended December 31, 2005

<u>EXPENDITURES (Continued)</u>	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Debt Service:				
Principal			7,779	
Interest			1,067	
Total Other	<u>-</u>	<u>-</u>	<u>8,846</u>	<u>(8,846)</u>
Total Expenditures	<u>462,945</u>	<u>487,557</u>	<u>524,962</u>	<u>(37,405)</u>
Excess of Revenues Over Expenditures	<u>92,675</u>	<u>107,241</u>	<u>46,635</u>	<u>(60,606)</u>
Other Financing Sources (Uses):				
Lease Proceeds	-	-	28,456	28,456
Operating Transfers In	8,000	8,000	8,000	-
Operating Transfers Out	<u>(100,261)</u>	<u>(100,261)</u>	<u>(100,261)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(92,261)</u>	<u>(92,261)</u>	<u>(63,805)</u>	<u>28,456</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	414	14,980	(17,170)	(32,150)
Fund Balance - January 1, 2005	<u>119,119</u>	<u>119,119</u>	<u>119,119</u>	<u>-</u>
Fund Balance - December 31, 2005	<u>\$ 119,533</u>	<u>\$ 134,099</u>	<u>\$ 101,949</u>	<u>\$ (32,150)</u>

VILLAGE OF HOMER
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2005

ASSETS						
	Park Maint Fund	Lake Imp Fund	Skating Fund	Fire Truck Fund	Building Authority Fund	Park System Fund
						Total
Cash and Cash Equivalents	\$ 64,827	\$ 4,090	\$ 785	\$ 175,646	\$ -	\$ 269,334
Investments	11,350	-	-	-	-	11,350
Receivables						
Taxes	-	-	-	-	1,395	1,395
Other	-	-	-	-	-	8,969
Due from Other Funds	-	-	-	-	4,500	4,500
Restricted Assets	-	-	-	-	79,159	79,159
Total Assets	\$ 76,177	\$ 4,090	\$ 785	\$ 175,646	\$ 85,054	\$ 374,707
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,500
Deferred Revenue	-	-	-	-	1,395	1,395
Total Liabilities	-	-	-	-	1,395	7,895
Fund Balances						
Reserved	-	-	-	-	79,159	79,159
Unreserved-Undesignated	76,177	4,090	785	175,646	4,500	287,653
Total Fund Balances	76,177	4,090	785	175,646	83,659	366,812
Total Liabilities and Fund Balances	\$ 76,177	\$ 4,090	\$ 785	\$ 175,646	\$ 85,054	\$ 374,707

VILLAGE OF HOMER
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

	Park Maint Fund	Lake Imp Fund	Skating Fund	Fire Truck Fund	Building Authority Fund	Park System Fund	Total
Revenues							
Taxes and Penalties	\$ -	\$ -	\$ -	\$ -	\$ 16,616	\$ -	\$ 16,616
Contributions from Local Units	-	-	-	27,549	-	-	27,549
Interest and Rentals	524	25	5	990	4,241	79	5,864
Other Revenue	-	-	-	-	-	870	870
Total Revenues	524	25	5	28,539	20,857	949	50,899
Expenditures							
Recreation and Cultural:							
Insurance	-	-	-	-	-	107	107
Supplies	-	-	-	-	-	949	949
Contracted Services	-	-	-	-	-	6,785	6,785
Debt Service:							
Principal	-	-	-	-	8,000	-	8,000
Interest	-	-	-	-	4,250	-	4,250
Total Expenditures	-	-	-	-	12,250	7,841	20,091
Excess of Revenues Over (Under) Expenditures	524	25	5	28,539	8,607	(6,892)	30,808
Other Financing Sources (Uses):							
Operating Transfer In	68	-	-	14,776	-	-	14,844
Operating Transfer (Out)	(8,000)	-	-	-	-	(68)	(8,068)
Total Other Financing Sources (Uses)	(7,932)	-	-	14,776	-	(68)	6,776
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(7,408)	25	5	43,315	8,607	(6,960)	37,584
Fund Balance-January 1, 2005	83,585	4,065	780	132,331	75,052	33,415	329,228
Fund Balance-December 31, 2005	\$ 76,177	\$ 4,090	\$ 785	\$ 175,646	\$ 83,659	\$ 26,455	\$ 366,812



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Village Council
Village of Homer
Calhoun County, MI

We have audited the basic financial statements of Village of Homer, as of and for the year ended December 31, 2005, and have issued our report thereon dated December 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Homer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Homer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Village of Homer's management and is not intended to be used by anyone other than these specified parties.

Hastings, MI
December 22, 2006

Walker, Fluke & Sheldon, PLC